

# Fed Letter



## Bank offers U.S. currency exhibit

A traveling exhibit detailing the history of U.S. currency is now available for loan to financial institutions in the Tenth Federal Reserve District.

The display traces currency from the Colonial period through present day, focusing on currency of major historical significance, including State Bank notes, Fractional notes, and Gold certificates. The display also features silver and gold coins, Confederate notes, and Demand notes—the currency which led some people to refer to bills as “greenbacks.”

There is no charge for the exhibit, but each participating institution will be responsible for paying shipping costs for transporting the exhibit to the next location. It is shipped in two cases and, once assembled, weighs about 130 pounds.

It is recommended that those interested in the exhibit have an open area of approximately 6’x6’ for display.

To reserve the exhibit in advance, contact the Tenth District’s Public Affairs Department at (800) 333-1010, ext. 2683. The exhibit is available on a first-come, first-served basis.

## Manufacturing Survey released

The monthly manufacturing survey for the Tenth Federal Reserve District was released Jan. 26. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District. Manufacturing activity in the Tenth Federal Reserve District continued to accelerate in January, and expectations for future factory activity remained solid. Most price indexes in the survey eased slightly but were still high by historical standards.

To view the current survey, visit <http://www.KansasCityFed.org/mfgsurv/2006Jan26mfg.htm>.

## Latest issue of *Economic Review* available

The fourth quarter 2005 edition of *Economic Review* is now available. In “The Greenspan Era: Lessons for the Future—A Summary of the Bank’s 2005 Economic Symposium,” George Kahn summarizes the Bank’s 2005 economic symposium, which brought together a distinguished group of central bank officials and academic, policy, and business economists to discuss the events and ideas of the Greenspan era and draw lessons for the future.

In the second article, “Does Immigration Reduce Imbalances Among Labor Markets or Increase Them? Evidence from Recent Migration Flows,” William R. Keeton and Geoffrey B. Newton conclude that the impact of immigration on the geographic allocation of labor is neither as harmful as immigration opponents sometimes suggest, nor as beneficial as immigration supporters sometimes claim.

Stacey L. Schreft, Aarti Singh, and Ashley Hodgson examine the behavior of employment in the first three years of jobless recoveries in the third article, “Jobless Recoveries and the Wait-and-See Hypothesis.” They suggest that a “wait-and-see” approach to hiring can contribute to such recoveries.

*Economic Review* is available at <http://www.KansasCityFed.org/PUBLICAT/ECONREV/ermain.htm>.

## Latest issue of the *Main Street Economist* Available

The annual report issue of *The Main Street Economist* is now available. “New Issues on the Rural Horizon” summarizes the performance of the rural economy in 2005 and focuses on three somewhat newer issues facing rural America in 2006 and beyond: energy prices, the budget climate, and sprawl. *The Main Street Economist* is available at <http://www.KansasCityFed.org/RuralCenter/mainstreet/MainStMain.htm>.

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## Regulatory developments

### Interagency guidance on sharing suspicious activity reports

On Jan. 26, the Department of the Treasury’s Financial Crimes Enforcement Network, along with the federal banking regulators, issued formal guidance on sharing suspicious activity reports (SARs) with head offices and controlling companies. The Federal Reserve has issued the guidance under its Supervision and Regulation (SR) Letter 06-1.

The guidance confirms that:

- U.S. depository institutions may disclose a SAR to controlling companies, whether domestic or foreign.
  - U.S. branches or agencies of foreign banks may disclose a SAR to its head office outside the United States.
  - The guidance does not address whether a banking organization may share a SAR with an affiliate other than a controlling company or head office whether located inside the United States or abroad. Until further guidance is issued, banking organizations should not share SARs with such affiliates.
  - Banking organizations must ensure maintenance of appropriate arrangements for the protection of confidentiality of SARs.
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### Interagency advisory on external auditor limitation of liability provisions

The federal financial regulatory agencies issued on Feb. 3 a final advisory that addresses safety and soundness concerns that may arise when financial institutions agree to limit their external auditors’ liability. The agencies’ primary concern is that limiting the liability of external auditors in engagement letters may reduce the reliability of audits.

The *Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters* informs financial institutions that they should not enter into external audit engagement letters that incorporate unsafe and unsound limitation of liability provisions with respect to audits of financial statements and internal control over financial reporting. Generally, this includes provisions that:

- Indemnify the external auditor against claims made by third parties (including punitive damages),
- Hold harmless or release from liability the external auditor for claims or potential claims that might be asserted by the client financial institution, or
- Limit the remedies available to the client financial institution.

The advisory is effective for audit engagement letters executed on or after **Feb. 9, 2006**. The advisory does not apply to previously executed engagement letters. Nevertheless, the agencies encourage any financial institution subject to a multiyear audit engagement letter containing unsafe and unsound limitation of liability provisions to seek to amend its engagement letter to be consistent with the advisory for periods ending in 2007 or later.

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**Risk-based capital treatment for cash collateral posted in connection with securities borrowing transactions**

On Feb. 6, the Federal Reserve Board announced the approval of a final rule for state member banks and bank holding companies that revises the risk-based capital treatment for cash collateral posted in connection with securities borrowing transactions. This final rule makes permanent, and expands the scope of, an interim final rule issued in 2000 that reduced risk-based capital requirements for certain cash-collateralized securities borrowing transactions.

Under the interim rule, a banking organization could exclude receivables associated with securities borrowing transactions that met certain criteria from its risk-weighted assets to the extent the transactions were collateralized by the market value of the securities borrowed. The final rule is substantially similar to the interim rule but broadens its application so that securities borrowing transactions that would not be eligible for certain exemptions from U.S. federal bankruptcy or receivership law may qualify for the beneficial risk-based capital treatment, provided certain operation and legal conditions are met.

The final rule took effect **Feb. 22**.

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**Internet access**

Regulatory developments like those above can be obtained from our website at **www.KansasCityFed.org**. Point to “Banking Information” on the home page, then click “Regulations/Guidance,” and select either of the first two categories, as appropriate.

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**Fed Letter**

**March 2006**

**Fed Letter** is published by the Public Affairs Corporate Communications Group of the Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, Missouri, 64198-0001, (800) 333-1010.

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